

November 30, 2000

Dear General Assembly Member:

### **REVENUE STABILIZATION FUND**

This Office is providing a report of the required calculations for the Revenue Stabilization Fund.

### **BACKGROUND**

Article X, Section 8 of the Virginia Constitution and the enabling legislation, requires this Office to report to the General Assembly by December 1, the following:

1. Certified tax revenues for the calculation of the Revenue Stabilization Fund;
2. The maximum size allowed of the Revenue Stabilization Fund; and
3. The amount of the mandatory deposit to the fund.

The attached exhibit provides the certified tax revenues for the past seven years, the percentage of revenue growth for each year, and the average percentage of revenue growth for the preceding six years. The exhibit shows the calculation for the maximum size of the Revenue Stabilization Fund and the funding progress to date.

### **CERTIFIED TAX REVENUES**

Management of the Department of Taxation temporarily reassigned some of its staff from processing individual income tax refunds to gather Virginia economic data from other returns and increased manual controls to review large refunds. Management also accelerated the processing of liens, resolving appeals, and office audits to increase revenue. The staffing changes altered the timing of tax refunds. The Commonwealth reduces tax revenues at the time it pays a refund. Taxation's change in the timing of when refunds occurred had the effect of increasing revenue and, therefore, increasing the amount of the mandatory deposit to the Revenue Stabilization Fund. Since the certified tax revenues use the cash basis of accounting, we have not adjusted the amount of revenue for this change.

### **MAXIMUM SIZE OF FUND**

Each year we are required to calculate the maximum size of the Revenue Stabilization Fund and the mandatory deposit. The amount calculated as the mandatory deposit at June 30, 2000, will go into the Revenue Stabilization Fund in fiscal year 2002, allowing for the appropriation process to occur.

At June 30, 2000, the Revenue Stabilization Fund balance was 66 percent of the maximum size allowed. Future deposits will continue to occur until at least June 30, 2002, and if revenues continue to grow, the maximum size of the Revenue Stabilization Fund will reflect this growth.

### **CALCULATION OF MANDATORY DEPOSIT REQUIREMENTS**

Certified tax revenues grew by 11.94 percent between fiscal years 1999 and 2000, and the average revenue growth for the preceding six years was 8.04 percent. Under provisions of the Revenue Stabilization Fund, the comparison of last year's revenue growth and the average growth is an increase of 3.90 percent. Therefore, the General Assembly will need to make a mandatory deposit to the fund of \$187,091,474 during the fiscal year ended June 30, 2002.

Should you have any questions concerning this information, please contact me.

AUDITOR OF PUBLIC ACCOUNTS

WJK:kva  
Enclosure

**CALCULATIONS FOR THE REVENUE STABILIZATIONS FUND  
(IN THOUSANDS)**

Years	Tax Revenue Required for Computation				Average Annual Percentage Increase	Preceding Six Year Annual Average
	Individual and Fiduciary Income Taxes	Corporate Income Tax	State Sales and Use Taxes	Totals		
1994	3,812,254	312,149	1,539,097	5,663,500	4.91%	5.80%
1995	4,027,337	376,356	1,657,699	6,061,392	7.03%	4.83%
1996	4,301,349	402,337	1,721,964	6,425,650	6.01%	4.19%
1997	4,728,088	432,298	1,826,761	6,987,147	8.74%	5.19%
1998	5,405,850	450,780	1,919,216	7,775,846	11.29%	6.29%
1999	6,087,888	420,421	2,065,265	8,573,574	10.26%	7.85%
2000	6,829,587	565,909	2,201,533	9,597,029	11.94%	8.04%

**REQUIRED COMPUTATION OF MAXIMUM ALLOWED REVENUE  
STABILIZATION FUND**

<u>Years</u>	<u>Amounts (In Thousands)</u>
1998	\$7,775,846
1999	8,573,574
2000	9,597,029
 Average for Three Years	 \$8,648,816
 Maximum Fund Allowed (10% of Average)	 \$ 864,882

**SCHEDULE OF FUNDING PROGRESS**

	<u>Amounts (In Thousands)</u>
Total deposits to date	\$522,805
Interest earned through June 30, 2000	<u>51,828</u>
Total in Fund at June 30, 2000	\$574,633
 <i>Percentage of Maximum Fund</i>	 66%
Required future deposits:	
June 2001	103,346
June 2002	<u>187,091</u>
Total committed to date	<u>\$865,070</u>